



Examiners' Report

June 2019

GCE Business Studies 9BS0 03

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Introduction

This report focuses on the paper 9BS0_03: 'Investigating business in a competitive environment', which accounts for a 30% subject weighting for GCE Business. It tested candidates' knowledge and understanding across themes 1 to 4 as well as their application, analytical and evaluative skills. The questions which begin with the command words 'assess' or 'evaluate' are designed to encourage candidates to write coherent chains of reasoning, with balance.

The business context for the paper was the market for holidays in the UK and abroad, and the UK-based businesses operating in these markets. This was shared with centres in November 2018 to enable candidates to undertake research in the following areas:

- UK consumer trends over the last 10 years, such as activity holidays, staycations, city breaks and package holidays.
- Influences on UK-based consumers for holidays; such as the growth and development of emerging economies, social trends, changing costs and prices, as well as external factors.
- Major businesses and niche operators in the holiday market, including budget airlines.
- The competitive environment facing UK-based holiday businesses.

The four structured questions in Section A of the paper examined aspects of the travel industry as a whole; namely the income elasticity of demand for holidays, assessment of a country as a production location, exchange rates and pricing strategies. The four structured questions in Section B examined the operations of mainly one business, namely Ryanair, focussing upon entrepreneur to leader, consumer protection and pricing strategies. In the spirit of keeping our question papers up-to-date, candidates were also asked in Section B to assess the reasons why Monarch Airlines failed.

The paper was on the whole well answered by candidates, with many able to use the evidence provided in order to answer most of the questions. More successful candidates were also able to draw upon their own research findings in order to write balanced arguments with logical chains of reasoning, whilst making effective use of the evidence in the paper from both the travel and holiday industry and Ryanair.

However, some candidates were indeed challenged by the demands of the paper, sometimes struggling to assess and instead opting to explain or analyse. For example, the effects of consumer protection on Ryanair. Similarly, some candidates were let down by a lack of accurate knowledge and understanding, so described what was meant by price elasticity of demand or demand factors, rather than assessing whether or not the demand for holidays was income elastic.

Generally candidates performed better in response to the questions in Section A than in Section B. This was often down to making better use of the Extracts A to D provided in Section A, and being able to calculate the moving averages and variances for Live the Adventure Ltd and then use these results to assess the business growth options available.

A minority of candidates appeared not to have finished the paper judging by the skeletal or lack of responses to question Q02(d). By contrast a good proportion of students made effective use of the examination time of two hours to write answer plans and continue onto extra sheets, where necessary.

Question 1 (a)

This seemed to be a challenging question for many candidates, who could not explain two factors which determine the income elasticity of demand (YED) for products/services and go on to explain how each of these applies to holidays. For example, the nature of the good as a luxury; a relatively large proportion of income is often spent on holidays - uncertainty. A number of candidates simply wrote about income and how it can affect demand for holidays or even confused price elasticity of demand with YED, so wrote (incorrectly) about the price of substitutes being a significant factor. More successful candidates were able to assess at least one factor by explaining that holidays are an increasing necessity in these times of increased life stresses and work loads. They recognised that whilst the demand for holidays overseas may be more income elastic, staycations or short city breaks may not be.

This candidate only assesses one reason why income elasticity of demand for holidays is income elastic.

- 1 (a) Using the data in Extract A, assess **two** reasons why income elasticity of demand for holidays may be income elastic.

(8)

Income elasticity of demand is how responsive demand is to changes in income. It is calculated by dividing the percentage change in quantity demanded by the percentage change in price.

One reason as to why income elasticity of demand for holidays may be income elastic is because holidays are expensive. This means that any changes in people's incomes will affect the demand for holidays, as if incomes rise, the demand for holidays will rise whereas if incomes fall, average real incomes fall, demand for holidays will reduce. However, this depends on the importance of having a holiday to consumers, if people would rather spend a large amount of their disposable income on holidays rather than other luxury goods e.g. a car, the income elasticity of demand will be relatively inelastic. The income elasticity of demand will also vary



The candidate identifies a reason for income elastic demand - holidays are expensive (and a luxury like a car). They then continue to explain what this means and provide a justification to the contrary (income inelastic demand) if holidays are not so important to a consumer. They were awarded level 2 and given 4 marks.



Better responses to this question were structured using an opening paragraph to define what income elastic demand means, followed by two paragraphs which each assess one factor using the context of holidays.

This candidate assesses two reasons why the demand for holidays is income elastic; luxury good/non necessity and expensive (implies large proportion of consumer income).

1 (a) Using the data in Extract A, assess **two** reasons why income elasticity of demand for holidays may be income elastic.

(8)

Income elasticity of demand considers how sensitive demand for a product/service is to changes in income.

One reason why holidays are income elastic is because going on holiday is not a necessity and therefore only when people have adequate levels of disposable income do they book a holiday. ~~Currently~~ ^{Recently} the UK economy has seen continuous inflation and incomes are not rising in line with this, ~~rather~~ thus people have less disposable income so are booking less holidays, consequently demand is decreasing showing how ~~elastic~~ income elastic the holiday industry is. However, this decrease in disposable income doesn't necessarily mean all areas of the holiday industry are income elastic. Certain services such as luxury travel and hotels tend to attract those who are more wealthy and these people are less likely to be affected by the impacts of inflation and therefore these superior services are not very sensitive to income fluctuations.

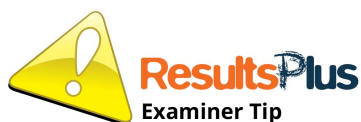
Another reason why holidays may be income elastic is because not only are they not a necessity, but they are also extremely expensive in most cases. Due to the weak £ against both the € and \$, it is becoming notably more expensive to travel to European countries in particular, which over the last 10 years has been the most popular ~~area~~ holiday location for British tourists. This rise in costs

means people are ~~increasingly~~ ^{increasingly} less able to afford to travel abroad, consequently further increasing the elastic nature of income and how it impacts demand. Having said this, there are a number of ways to holiday abroad for a cheaper price. The increase in the number of price comparison sites such as Trivago means people can find both flights and hotels for a very cheap price due to the huge amount of supply in the airline and holiday industry. Therefore, maybe the cost of travel is not having as much of an impact on elasticity as once thought.



This response opens with an effective definition and explains that holidays are not a necessity. Evaluation is achieved through the argument that luxury travel and hotels will not suffer a fall in demand given the higher wealth of the consumers who purchase them (implied inelastic), so effective use of context.

The candidate goes on to explain why the relative expense of a holiday makes its demand income elastic, but does not give a reason why despite this demand it can be income inelastic, so level 3 and 7 marks are awarded.



This response shows that it is best to focus on the point of the question rather than struggle to use the evidence in the appropriate extract(s) to justify your ideas. The price comparison site argument actually serves to support the idea that the demand for holidays is income elastic.

Question 1 (b)

This question was generally accessible and well answered by candidates, with several factors being explored such as ease of doing business, having the appropriate infrastructure, consumer incomes and government incentives. Weaker responses focussed on the challenges of entering any market rather than on China and Disney in particular, and therefore achieved lower marks than those stronger responses that recognised, for example, the value of Fosun and the strength of the Disney brand, together with the emerging middle class with appropriate disposable incomes to enjoy such new entertainment.

This candidate examines the importance of branding, start-up costs and the potential number of customers available to Disney in China.

(b) Assess the factors that might affect the success of a global business such as Disney when entering a new market such as China.

(10)

A global business is one which operates in or sells to people and countries worldwide. One factor which may affect the success of a business when entering a new market would be branding. This is because if branding is strong more people may recognise the brand or have already developed brand loyalty to Disney for example. This leads to a secure market with many existing customers willing to travel abroad and domestically to experience the new park. This allowed Shanghai Disney to welcome 10 million visitors in 11 months. Therefore the business is successful as they have high sales and therefore high revenue. ~~Therefore~~

However, the costs of setting up in a new location can affect the success because if start up costs are high it may take a long time to repay the investment. This leads to limited profit margins for the time it takes to repay the initial investment. In this case, the Shanghai government provided land and research and

development meaning costs were lower for Disney, potentially allowing them to become more profitable. This is beneficial to the Shanghai government as corporation tax will be paid on any profits earned. Therefore if start up costs are lower it can make the business more successful as they need fewer visitors to cover their costs.

Overall the success of Disney entering a new market depends whether they gain enough visitors ~~here~~ and generate a profit. However when setting up a global business, barriers to entry and exit should be considered. It may also depend on the level of competition as currently Disney is a monopoly in ~~Shanghai~~ China however with the opening of Universal Studios in 2020, competition will intensify.



A well balanced response with effective chains of reasoning which made good use of Extract B (10 million visitors in 11 months, Shanghai government providing land, planned opening of Universal Studios in 2020). The candidate attempts an overall judgement, so they are awarded level 4 and 8 marks.



Judgements can be made clearer by referencing an aspect of the business' market, objectives, products or situation (MOPS).

This candidate only explores one factor that might affect the success of a global business, such as Disney in China, namely market knowledge.

(b) Assess the factors that might affect the success of a global business such as Disney when entering a new market such as China.

(10)

A global business is a company that operates in many countries across the world.

One factor that may impact Disney when entering a new market such as China, is lack of knowledge of the market. Disney is an American business and did not have experience with the Chinese market. Additionally, the Chinese market does not have many theme parks, and so ~~it was not~~ there was not a lot of information on the market. Due to a lack of knowledge on the market's wants and needs, Disney may not have been successful in this new market.

However, Disney may not have been impacted as badly by this due to their co-operation with Fosun International. Fosun are a large Chinese conglomerate that has exceptional knowledge of the Chinese market. Fosun can provide the

knowledge of the market when operating Shanghai Disney. Therefore Disney will ~~be~~ have a higher chance of success due to Fosun.

Overall I think that the factors impacting Disney could help them succeed. This is as although Disney lack market knowledge in China, Fosun International, who they partnered with, have exceptional knowledge on this market.



Chains of reasoning are clear and the market knowledge factor is assessed with reference to the benefits of Disney being able to work with joint venture partner Fosun. However, only one reason is assessed which limited the mark awarded to level 3, 5 marks.



Always read the question carefully.

Question 1 (c)

Most candidates made a reasonable attempt at answering this question, recognising that the depreciation of the £ might cause the demand for overseas holidays to fall as the purchasing power of UK tourists will suffer overseas.

Weaker responses discussed the theory of exchange rates on holidays without a clear use of the wealth of data available in Extract C, or indeed their own knowledge gathered from reasearch. Although this did not bar a response achieving high marks, this was often the case due to a lack of complete chains of reasoning and balanced arguments in relation to the effects of fluctuations of exchange rates. Better responses were able to examine how exchange rates may have affected the holiday market, for example, with the rise of staycations. Other more successful candidates discussed the significance of the extent of the exchange rate fluctuation. Well evaluated responses were able to see that even though exchange rates had worsened for UK consumers, the amount of holidays per person abroad had actually increased from 1.2 to 1.7 per person per year. Judgements tended to be weak and simply a reiteration of what had already been said gaining few, if any, further marks.

Although this candidate did not clearly refer to the data in Extract C, they did gain a level 4 mark of 9.

(c) Assess the extent to which movements in exchange rates might influence the holiday choices of UK consumers.

(12)

Recently the value of the pound had depreciated which has made most exchange rates, for going into a pound, a lot smaller meaning if you were to ~~the~~ exchange ^{it} into another currency, it could now give you a lot less spending money while you are on holiday and it could be a lot more expensive when buying items from shops abroad. This could influence many people not to travel as much to the places who have a lower ratio in exchange rate against the pound as they might try to get more for their money and not want to spend even more than they used to have to about 5 years ago.

However, there could still be the people that want to travel abroad to those countries in Europe and America ~~the~~ ~~the~~ and they could've had an increase in income or just a regularly high income that just lets them have such a large amount of surplus that they could save for the

holiday or spend it there and then. This however, could have led to not much change still as people will still want to travel to those countries, especially those with higher incomes. Therefore, it might not be a big deal if exchange rates decreased as more and more people are going on holiday abroad every day.

In conclusion, I think exchange rates might not be as big an influence on the holiday choices of UK ~~consumers~~ consumers as they could still possibly afford to go on holiday despite the exchange rate or they might not care and just really want to travel abroad still, meaning in the short term and long term the changes in holiday choices might not be as reliant on exchange rates and could possibly just be to do with the trends and Instagramability now since a lot of people copy others on social media and that is a large influence, especially on the younger audience.



Chains of reasoning are present and there is a tentative reference to the data (5 years ago) to support why travel abroad may suffer when the value of the £ falls against other currencies. Balance is provided as they argue that incomes may have increased which might fuel personal savings for financing holidays, or that demand for holidays overseas is something people wish to experience regardless of exchange rate fluctuations. An original conclusion is written, suggesting that the demand for holidays is quite often prompted through social media influences and applications like Instagram.



Use of data in Extract C could have made answering this question with balance more straight forward. Candidates are reminded to read all of the extracts in each section (in this case A to D), before answering the appropriate questions (Q01(a) to Q01(d)).

The opening did not provide a very clear definition of exchange rates. It would have been better to say 'in relation or comparison to other currencies'. However, this student uses the data in Extract C to help support analysis.

(c) Assess the extent to which movements in exchange rates might influence the holiday choices of UK consumers.

(12)

Exchange rates ^{is the value of} ~~is~~ how ~~one~~ one currency fluctuates in comparison to the rest of the world's currency. The movement of exchange rates will influence the holiday choices of UK consumers because it will mean that the ~~the~~ money they exchange into foreign currency will be at risk of loss when the exchange rates are higher than normal, this is shown in extract C where a correlation is shown that when the exchange rates, from \$ to £ and € to £ are high the UK population is ~~more~~ and ~~will~~ opt out of a holiday abroad this is seen in years 2013 and 2014 where the UK holidays are significantly higher than the ~~the~~ holidays abroad. ~~However~~ This shows that UK consumers will be influenced to choose a ~~the~~ staycation rather than a abroad holiday when exchange rates are higher. However the exchange rates for the £ will also be unlikely to ~~change~~ influence the choice of UK consumers ~~because~~ because it can be a necessity for some people such as business or family so the holiday market may be PED inelastic for some people.



The candidate explains why the demand for UK staycations increases given the depreciation of the pound, and attempts to provide balance in the response but the chain of reasoning regarding 'may be PED inelastic for some people' could have been explained better. No overall judgement is given. Level 3 and 6 marks are awarded.



Use paragraphs in responses to make it clear that you are making a new point, especially if it is a contrasting argument. Assess questions require students to provide a supported judgement.

Question 1 (d)

Candidates were usually able to offer correct calculations for A, B, C and D, but too often these results were then not used any further in responses to support the arguments regarding the best option for business growth for Live the Adventure Ltd; so an opportunity was lost to gain higher marks at level 3 and into level 4. Almost all candidates were able to offer some analysis of both options with level 3 chains of reasoning, but answers were then sometimes let down by a failure to consider how the business' sales might be increased. The best responses evaluated the two options, using the background and wider situation the business found itself in (established since 1984, experience of operating overseas already in Nepal, a number of qualified, skilled and experienced staff), or some other element of the market, operations or the nature of the product/service in order to provide a supported judgement, conclusion and recommendation.

The candidate starts to answer with calculations, although missed the minus signs on the two variances.

This is a superficial assessment on the whole, which does not really show a critical understanding of the issues by either referring to significant evidence in Extract D or theory (such as Ansoff).

Live the Adventure Ltd is deciding whether to expand its existing operations or to offer winter activity holidays in Europe in order to grow.

(d) Using the data in Extract D, calculate the values of A, B, C and D and, using other non-financial information, evaluate these two options.

Recommend which **one** of these two options Live the Adventure Ltd should choose in order to grow.

(20)

$$\begin{aligned} \text{4Q moving average} &= 2016 \text{ (A) Q4} \\ &= 2017 \text{ (C) Q1} \end{aligned}$$

$$A = \frac{590}{8} = 73.75$$

$$\begin{aligned} \text{Variation} &= 2016 \text{ (B) Q4} \\ &= 2017 \text{ (D) Q1} \end{aligned}$$

$$C = \frac{610}{8} = 76.25$$

$$B = 73.75 - 60 = 13.75$$

$$D = 76.25 - 60 = 16.25$$

Live the Adventure Ltd. should expand its existing operations as it will be quite sufficient since their sales have recently been increasing and leaving a lot of positive variations. This could mean that they are doing very well in their operations and they don't need much improvement in order to grow. Therefore, it could be best for them to stick at what is working best and just expand it even more so it becomes more well known and easier accessible for other consumers.

However, the existing operations were bringing in a lot lower sales before and there seems to always be quite a decrease in the 1st and 4th quarters which could mean that they might not do as well during those times of the year so it could possibly become a problem and they could need something else in order to increase their sales in that time.

On the other hand, they could offer some winter activity holidays in Europe to grow and this maybe what is missing during Q1 and Q4 as December might be in Q4 and January and February could be in Q1 meaning both of the quarters of the year which don't do as well are ^{mostly} during the winter. This could lead to many people suddenly finding a new thing to do in the winter and this could therefore increase Live the Adventure Ltd's sales and help them grow.

However, there could just be some people who prefer to stay at home in most of the winter time as there would be Christmas and New Year and they could want to spend it at home with their families. So if the winter activity holidays were to be considered it might still only be chose as a short break, meaning sales might not increase as much.

Overall, I think that introducing the winter activity holidays might be a good thing for Live the Adventure Ltd. So, the sales in the parts that always decrease could potentially increase and make a lot of people (their customers) want other things to do during the winter and they will now have more options to choose from. This could mean that in the short term, there could be some difference and a small increase in their growth and then in the long term the quarters could equal out with each other and many people could like their winter holidays.

(Total for Question 1 = 50 marks)

TOTAL FOR SECTION A = 50 MARKS



'Stick at what they know best' could have been identified as 'market penetration' to enable the student to show more effective use of appropriate business theory/concepts.

As it is the response does little more than refer to the quarterly sales of Live the Adventure Ltd recognising seasonality as a factor but not really demonstrating a full understanding of the issues, let alone the business growth objective. They were awarded the lower end of level 3 and 9 marks.



When asked to calculate data values in an 'assess' or 'evaluate' question it is vital that the results are included in the report. They should not stand alone.

Here the candidate does include the calculation outcomes in the rubric of the assessment.

Live the Adventure Ltd is deciding whether to expand its existing operations or to offer winter activity holidays in Europe in order to grow.

(d) Using the data in Extract D, calculate the values of A, B, C and D and, using other non-financial information, evaluate these two options.

Recommend which **one** of these two options Live the Adventure Ltd should choose in order to grow.

(20)

$$A = 590 \div 8 = 73.75$$

$$B = 60 - 73.75 = -13.75$$

$$C = 610 \div 8 = 76.25$$

$$D = 60 - 76.25 = -16.25$$

Expanding existing operations is an example of market penetration. This could be beneficial to Live the Adventure because it already has a team of staff and facilities available. This leads to lower costs to set up and so potentially allows for higher profit margins. Furthermore, they already have a strong market base, demonstrated by the ~~£6.75~~ (A) of £76,750 ~~per~~ worth of sales between January and March 2017. Therefore expanding existing operations is low cost and encourages existing consumers to return to try new things.

However, expanding existing operations may limit growth as they are not entering a

significant new market. For example if they introduce tennis this only attracts people in the local area which enjoy tennis and therefore may not lead to significant growth. As a result, it may be existing customers visiting more frequently rather than reaching a new market meaning growth is much slower.

Offering winter activity holidays in Europe is an example of market development as they are selling a similar product to a new geographical base of consumers. This could be beneficial to Live the Adventure because there is quite a lot of variation between their sales revenue each quarter shown by the -16.25 variation for Q1 of 2017. Therefore this shows seasonal variation with sales being higher between April and September for all 3 years shown. Therefore, winter sports may boost revenue in the colder months of the year, spreading risk and reducing variation.

However offering holidays ~~and~~ in Europe may have high barriers to entry or

exit which could mean it takes a long time to set up and can be costly. This can therefore restrict growth also as extra measures may have to be put in place. It depends if the business has enough cash.

Overall the best option for Give the Adventure in order to grow would be to enter Europe because there is a huge new market available and they could have several sites across Europe. There is also free trade between the UK and Europe and so barriers to entry should be low. It may also help boost sales in the winter months when revenue is lower, meaning there is high variation and an unsteady forecast.



A critical understanding of the Live the Adventure Ltd business is demonstrated as arguments are presented by reference to the information provided in Extract D. Ansoff classifications are also applied correctly to the two options and seasonal trends in the data are utilised well. Reference to sufficient cash flow is made, though this point could have been developed further. The candidate references free trade between the UK and the rest of Europe as a new point in the overall conclusion to support the recommendation of offering winter holidays. Some examples of incomplete chains of reasoning but they are awarded level 4 and 17 marks.



When making a point to explain an idea, it may be useful if candidates take time to read back through their answer to make sure that chains of reasoning are complete.

Question 2 (a)

This question proved quite challenging for many candidates. Many failed to clearly identify difficulties moving from entrepreneur to leader. Answers often became a response regarding having the right management style. However, management styles cannot be directly translated to the difficulties of transferring from entrepreneur to leader and so did not gain many marks in a number of instances. Some answers fell into the trap of simply regurgitating evidence from the extracts, or even how to manage a large business, which therefore scored no more than level 1 or 2 and so attracted few marks. Better responses were able to identify the issues facing Michael O'Leary, though chains of reasoning were sometimes weak. The best responses were able to highlight difficulties, such as the ability to delegate, or need to lead and communicate with staff, and also used appropriate evidence to develop arguments. Balance was often weak (such as O'Leary's instant credibility amongst staff given his humble background or because of his work experience at Southwest Airlines), meaning top marks were elusive to all but the best candidate responses.

The candidate presents two difficulties - better communication and the need to delegate.

2 (a) Assess **two** difficulties for Michael O'Leary when developing from an entrepreneur to a leader.

(8)

Developing from an entrepreneur to a leader requires a set of skills to cope with this change. A difficulty Michael O'Leary will have when developing from an entrepreneur to a leader is that it requires better communication and leadership skills. This means that as the business grows it also increases the people a leader is responsible for, which means that he has to be able to maintain a good relationship with staff at all levels and transmit his ideas effectively. This could be difficult for O'Leary as he is used to being an 'obsessive' business man who mostly just worries about profits, whereas in order to become a leader he must be able to inspire others and motivate them so that the business can continue growing.

Another difficulty O'Leary will find is that as a leader he must be able to delegate tasks to other staff in order to avoid being overwhelmed with work and ensure the company runs smoothly. O'Leary was used to working at Southwest Airlines, which is a smaller business with less layers and where he would be able to contact most tasks and make decisions. However, in order to succeed at Ryanair he will have to allow other staff to have input in decisions and delegate tasks so that employees feel they are trusted. This will also make Ryanair more efficient as not all decisions will have to go through O'Leary.

In conclusion, when developing from an entrepreneur to a leader

of leasty will have difficulty adapting to the change in size and his responsibilities that he didn't previously have, such as communicating with all staff and leading agencies into the future.



The candidate provides effective chains of reasoning with balance to achieve level 4 but just falls short of assessing each difficulty, so gained 7 marks out of 8.



When presenting two lines of argument, always provide balance to each for 8 mark questions. No overall judgement is necessary.

This candidate simply lifts information from Extract E ('cold hearted and ruthless') and asserts 'applying his ideas...may have been a struggle'.

2 (a) Assess **two** difficulties for Michael O'Leary when developing from an entrepreneur to a leader.

(8)

One difficulty Michael O'Leary faced was having to be 'cold hearted and ruthless'. He had to compete with other businesses and so had to be stern. This may have been a struggle as he may not have wanted to be like that. However, although it was difficult to act this way it helped him run the business properly.

Another difficulty Michael O'Leary ~~face~~ is may have faced when developing into a leader is applying his ideas. Coming up with the ideas may have been easy for an entrepreneur like him but applying them cost effectively may have been a struggle. However, Ryanair are still running strong today so this may not have been an issue.



The difficulties of moving from entrepreneur to leader are more implicit than explicit in this candidate's response - taking the above as effective communication and respect for workers, so they were awarded level 1 and 2 marks.

Level 1, 2 marks was also awarded where students were able to show clear knowledge and understanding of what was meant by leader and entrepreneur.



The extracts are provided as a stimulus for candidates to then use their own knowledge and suggest how in this case difficulties may have arisen; the need to delegate and communicate was most appropriate in this case.

Question 2 (b)

This question was generally answered well by candidates, with stronger responses recognising that even following the fines imposed by the Civil Aviation Authority, Ryanair sales continued to grow. Most candidates were able to explain a couple of effects, such as on the brand's reputation and sales, and to provide limitations (often increased costs or the fact that Ryanair is a budget airline with a high rate of turnover so can survive such threats). Weaker responses either offered only one response or failed to offer any balance. These candidates also simply rephrased the extract with little added insights into the effects of consumer protection legislation on Ryanair's business operations. Some candidates incorrectly discussed legislation such as the Minimum Wage Act which was actually outside the remit of the question.

This candidate offers a balanced response which uses the context and Extract F effectively.

(b) Assess the likely effects of consumer protection legislation on a business, such as Ryanair.

(10)

Consumer protection legislation is the rights consumers have such as whether they are entitled to a refund. For Ryanair, this can lead to increased costs because when they failed to meet regulations it cost them €25 m in compensation to consumers for cancelled flights. This leads to reduced net profit for the business so can make them less profitable. Furthermore, it incurs costs surrounding additional staff training surrounding this legislation, especially if changes are made.

However, consumer protection legislation can improve the reputation of Ryanair. For example, when the 20,000 flights were cancelled and compensation was paid, this shows Ryanair following legislation and caring for its customers. This leads to customers potentially feeling more secure to travel with Ryanair and did result in an 8% increase in passenger numbers between October 2016 and October 2017. Therefore it can result in increased market share.

In conclusion, legislation can affect Ryanair both positively and negatively depending on how it reacts to the legislation. It can promote better customer service surrounding refunds for example creating a better image of the business. In the situation of the regulation breach, following consumer protection did help Ryanair to retain its market share and stay profitable with a net profit of €1.4 bn in March 2018.



There are good, completed chains of reasoning as to why consumer protection laws might adversely affect, and in deed did affect Ryanair. This is contrasted with the use of evidence to support the notion that if followed, which Rynair did, then it may have a positive effect on passenger numbers (8% increase in October 2017) and profits, as a result of the business acknowledging its responsibilities. They are awarded level 4 and 8 marks.



Avoid repeating arguments in an attempt to make a judgement.

This response uses the evidence provide in extract F, but because of incomplete chains of reasoning fails to achieve above level 3.

(b) Assess the likely effects of consumer protection legislation on a business, such as Ryanair.

(10)

Consumer protection legislation are laws put in place to protect customers from businesses.

Consumer legislation will effect a business such as Ryanair because if they fail to meet regulations it could result in high costs. For example Ryanair had to pay €25 million compensation to customers, for cancelled flights and not refunding additional expences. Therefore Ryanair's cash flow problems can reduce ~~sales~~ profitability and reputation ~~can be~~ damaged which can impact on consumer loyalty because of their unethical actions against customers.

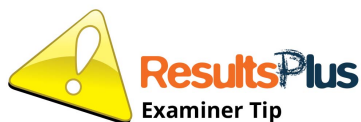
However consumer protection won't effect a business such as Ryanair because customer demand for budget airlines will still be high. This can lead to maintaining sales highlighted by Ryanair's 8% increase of passenger numbers in October 2017. Therefore they are still able to compete effectively against competitors such as easyjet.

Overall even consumer protection legislation will impact a business such as Ryanair because it can reduce customer trust and reduce sales affecting the businesses ability to out compete competition negatively affecting their short term situation.



The candidate identifies the high costs (£25m) caused by compensating consumers and asserts that this can reduce profitability and damage reputation, without explaining fully why.

They assert that because Ryanair is a budget airline, then it will not be affected by consumer protection - again not explaining fully why. They are awarded level 3 and 5 marks.



When there is some attempt at analysis but incomplete chains of reasoning, candidates will score at best the lower end of level 3.

Question 2 (c)

Most candidates answered this question well as it was made quite accessible given the extensive range of examples in Extract G. However, it was sometimes answered in a confused manner with candidates often simply listing the internal and external causes directly from the extract but with little development or explanation. Less successful candidates confused internal and external causes of Monarch's business failure. Better responses were able to select and use appropriate evidence from the extract to explain the failings of Monarch's management and often evaluated the tensions prompted by external causes; such as terrorist incidents and fuel price rises caused by oil being priced in dollars coupled with a depreciation in the £ sterling. On the whole judgements tended to simply summarise points already made.

This candidate defines business failure and then goes on to explain (using complete chains of reasoning) why Monarch's failure was either down to internal or external reasons.

(c) Assess whether Monarch Airlines' business failure was due to internal causes.

(12)

Business failure is where the business doesn't generate enough revenue to cover costs and therefore makes a loss in the long term which isn't sustainable. This failure of Monarch could have been caused by not adapting quickly to react to competitors which is an internal cause. This is because they didn't find a way of having a new fleet of planes in a short enough period of time as there was going to be a two year time lag between ordering and receiving. Therefore the business was in control of this factor as they could've adapted more quickly or used a different method to differentiate from competitors such as easyJet. This lack of adaptation led to business failure as competitors took their consumers causing market share to fall and dramatically reducing revenue and therefore profitability.

However, the failure of Monarch could be due to the depreciation of the pound which is an external factor. This led to business

failure because if the pound is worth less, it dramatically increases the price of fuel for example. For many airlines, fuel is their biggest expense and so if the costs of this ~~the~~ are higher, it can reduce operating profit therefore making the business considerably less profitable. Therefore the failure of Monarch was due to external factors.

In conclusion, the main factors leading to the failure of Monarch were not internal but external as there were also terrorist attacks which reduces demand for holidays in these locations. Whilst there are changes Monarch could make such as altering their destinations costs and time lags mean this may not have been possible. Furthermore, the actions of Monarch's competitors ~~were~~ ^{were} a step ahead so damaged Monarch's reputation as it lacked a USP and couldn't get costs low enough.



Internal reasons are examined first (lack of adaptation) and expanded upon to explain why market share (sales) fell. The external factor examined is the depreciation of the £ Sterling and the consequences for fuel prices and the terrorist attacks in Monarch holiday destinations. No judgement is provided so the candidate is restricted to level 4 and given 10 marks.



The candidate wrote 'on conclusion' but instead came up with another series of ideas as to why external factors were significant in explaining Monarch's business failure. This did not amount to a judgement. Candidates should make their overall decision clear and try to reference the market, objectives, the nature of the product, or the overall situation the business found itself in.

A level 3 response which illustrates some chains of reasoning to support the notion that internal factors were largely to blame for Monarch's business failure, using the evidence from Extract G.

(c) Assess whether Monarch Airlines' business failure was due to internal causes.

(12)

Internal causes of failure are from ~~not~~ problems within the business.

Monarch airlines' business failure was due to internal causes because it failed to adapt ~~to~~ ^{as a} low cost airline. This led to Monarch having high costs mainly because of its decision to lease a new fleet of aircraft. Therefore costs were high ~~decreasing~~ ^{increasing} cash flow problems especially since new aircraft wasn't delivered until 2017 not allowing short term increase of sales.

However Monarch airline failed because of external shocks not internal causes. This is because the business relied on middle east tourism which fell due to increase in terrorism. therefore Monarch couldn't compete effectively with rivals such as Easyjet and Ryanair.

Overall Monarch airlines failed due to its ~~capability~~ ^{unsuccessful} attempt to

become a low cost airline. However its situation was worsened by external shocks including terrorism and depreciation of pound leading to profitability issues.



However, the response is not fully balanced because the arguments for external factors being responsible are simply lifted rather than explained. There is no judgement so the response is limited to level 3 and given 6 marks.



Complete chains of reasoning for both sides of an argument, select relevant evidence from the extract and use appropriate business terminology.

Question 2 (d)

Many candidates found this question the most accessible in terms of subject knowledge and ability to use the context. Those candidates who answered this question well discussed the two options and focused on their likely impact on Ryanair's profits throughout their answer and were able to include some balance and evaluation skills to access level 3 and level 4 marks. There was a small number of candidates who confused penetration and skimming pricing. Better candidate responses recognised the segmentation possibilities for differing locations and used the data from Extract H to support their ideas, such as relatively poor GDP growth in Brazil (-4%).

A reasonable evaluation of both pricing strategies in relation to Ryanair/Air Europa.

For long-haul flights to the Americas, Ryanair and Air Europa could use competitive pricing or a penetration pricing strategy to maximise profit.

(d) Evaluate these two pricing strategies and recommend which **one** should be used by Ryanair and Air Europa to maximise profit.

(20)

Penetration pricing is where you price low at the start and steadily increase price over time.

Ryanair and Air Europa should use penetration pricing to maximise profit. This is as by starting off low they may be able to attract competitors, like Spain's Iberia and KLM's airlines, customers. This can add to their already 130 million customers. By doing this ~~also~~ Ryanair and Air Europa increase their customer base and then increase price to maximise their profit. By first pricing low it attracts a larger market causing a larger profit. ergo Ryanair and Air Europa should use penetration pricing.

However, Ryanair and Air Europa should not use penetration pricing

as they may not benefit much from it. If Ryanair and Air Europa don't attract enough customers when they price low, they will just see a drop in revenue. If they don't increase their customer base in the first few months then the strategy of penetration pricing will be pointless and won't maximize profits. Therefore this is not the right strategy for Ryanair and Air Europa.

Ryanair and Air Europa should use competitive pricing. By using this style of pricing they will be level with competitors like Spain's Iberia and Vueling airlines. The competitive pricing allows Ryanair and Air Europa to price at a rate that is already successful for 2 large businesses in the market. This shows that it is a proven method of making profit and therefore it would benefit Ryanair and Air Europa.

However, Ryanair and Air Europa should not use competitive pricing as they

could be undercut. If Ryanair is undercut it risks losing customers if they don't lower their prices. Ryanair want to keep their 130 million customers so they would lower their prices. However this then decreases the profit they are making and therefore isn't beneficial for Ryanair.

Overall I think that Ryanair should use penetration pricing. In the short term it may result in lower profit, but the customer base will increase therefore in the long term profits are maximised. This is also not as vulnerable to being undercut as they already start at a lower price and undercut the other competitors. Therefore Ryanair and Air Europa should use penetration pricing to maximise their profits,



Good use of subject knowledge and business behaviour is shown by this candidate, in order to provide complete chains of reasoning to support the use of penetration pricing as a means to increase their customer base over the longer term and hence increase profits. The candidate makes reasonable use of the evidence provided (Spain's Iberia and Vuelling, 130m Ryanair customers) in their assessment. The conclusion, however, is simply a repeat of what has already been stated. Therefore, the candidate is awarded level 3 and 13 marks are given.



Conclusions really ought to make a new point. In this case, for example, stating that to establish itself in the long-haul flights market from Europe to countries in South America (arguably in this case classed as product development and/or diversification), Ryanair/Air Europa should make use of penetration pricing as this would enable the businesses to establish themselves and make higher profits over the longer term.

A well balanced evaluation of both pricing strategies which makes effective use of business theory, concepts and the evidence provided.

For long-haul flights to the Americas, Ryanair and Air Europa could use competitive pricing or a penetration pricing strategy to maximise profit.

(d) Evaluate these two pricing strategies and recommend which **one** should be used by Ryanair and Air Europa to maximise profit.

(20)

Competitive pricing can be defined as setting price closely and similarly to rivals in the market. One likely benefit of using competitive pricing for Ryanair and Air Europa is to secure their competitiveness in the market. This means that Ryan Air and Air Europe could control competition by preventing them to take market shares as well as customers by offering competitive prices. The partnership between them would enable two airlines to get access to wider customer base that can lead to economies of scale. This leads to lower cost that allows Ryan Air and Air Europa to charge lower prices without losing profits. As a consequence, their profitability should improve as ~~as~~ they are more competitive ^{in terms} of price and they could compete on non-price factor in order to ~~ret~~ obtain and retain customers. The evidence is the partnership enables 130 million customers to book Air Europa long-haul flights on the Ryanair.com website. However, just by focusing on competing rivals may miss covering fixed ~~and~~ overhead costs. This might lead to the risk of not being able to cover cost that lead to a harm in future profit. Since the airlines industry incurs huge fixed cost that require airlines to price close to break-even price in order to make profit. As a consequence, using competitive pricing might mean that Ryanair

and Air Europa have little control over price and ~~the~~ they are more reliance on other competitors in the market, making it harder to charge higher price to maximise profits in the future.

Penetration pricing is setting lower prices when entering the market to get established then raising prices in the future. One benefit of Ryan Air and Air Europa using penetration pricing is it would enable them to get a foothold quickly in the market. This allows them to get a quick boost to sales as the initial low price would encourage customers for trials or to switch brands. This also allows them to exploit economies of scale as improving capacity utilisation by filling all the seats could lead to lower average cost. As a consequence, Ryan Air and Air Europa could gain market share from competitors through higher sales while improving their profit margins because of lower costs. However, the lower initial prices could cause expectations of ~~perpetual~~ permanent low prices. This creates price sensitivity among customers that make it harder for them to charge higher price later. Moreover, customers who purchase might be people who looking for a bargain rather than loyal one. This affects the customer base as well as the profitability of Ryan Air and Air Europa in the long term. With reference to Extract 11, the chart shows the GDP of some of the main destinations like Argentina and Brazil experienced negative growth rates at 2.0% and -1.2%. This provide little scope for Ryan Air and Air Europa to raise higher prices.

to maximise profit

Overall, to a large extent that competitive pricing might be more suitable for Ryan Air and Air Europa. This is because consumers are now more knowledgeable and sensitive to price with the help of technology in the market that requires more competitive prices offered by airlines. Moreover, Ryan Air is also a dominant player in the low cost airlines field that could give them the competitive advantage of being a cost leader ship. As a result, Ryan Air and Air Europa have the advantage of cost and experience that allows them some price making power in the market to stay ahead of competitors and maximising profit.



The candidate on the whole writes effective chains of reasoning to argue both for and against each of the strategies, referencing Porter's cost leadership model. On the first page the candidate examines competitive pricing suggesting it could enable Rynair/Air Europa to access a wider customer base and so benefit from economies of scale, which might enable higher profits, balancing this with the danger of not being able to cover high fixed costs so prevalent in the industry. Assessment of penetration pricing recognises that the strategy might enable Ryanair and Air Europa to gain a foothold in the long haul flight market and improve capacity utilisation, but may lead to customer expectations of permanent low prices. The data in Extract H is well utilised as a means to justify the businesses being less able to increase prices in the longer term. A conclusion is attempted, so this candidate is awarded level 4 and 17 marks.



To achieve a level 4 mark in an evaluation question, candidates are advised that responses should include accurate and thorough knowledge and understanding. Any opportunity to introduce this in an assessment should be encouraged. This candidate achieves this through adding the significance of economies of scale, cost leadership, high fixed costs and capacity utilisation.

Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Stick closely to the requirements of the questions posed and apply these effectively to the relevant business in the evidence.
- Make sure you have a sound understanding across the specification content in Themes 1 to 4 so you can apply this with more confidence to the questions - in particular, for Q01(a) income elasticity of demand and Q01(d) quantitative skills on sales forecasting.
- Pay attention to the command words and the respective mark allocations to be able to write appropriate and succinct responses.
- Do not give generic answers without context.
- Manage your time effectively, do not write overly long answers to 8 mark questions at the expense of 12 and 20 mark questions.
- Learn the specification terminology, specifically consumer protection, Ansoff's Matrix, 4 and 8 year moving averages and variances.
- Glossaries of key terminology are a good way of securing this knowledge at all stages of preparation for the paper.

Grade Boundaries

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